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Kersan-Škabic, Ines

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Chapter 10

HOW PREPARED IS CROATIA TO ACCESS EUROPEAN UNION REGIONAL POLICY FUNDS? THE CASE OF ISTRIA

Ines Kersan-Škabić*

University of Rijeka

Faculty of Economics and Tourism

“Dr. Mijo Mirković”

Pula

ABSTRACT

This paper analyses the characteristics of EU regional policy and emphasizes the component of regional policy towards the Central and East European countries (CEEC) in the phases of candidacy and their full membership. Special importance was given to the possibility of Croatia to absorb funds offered by the EU. Potentials of Croatian regions are illustrated through the case of Istria, which successfully uses funds provided by the CARDS program and projects of Community Initiatives. In order to prepare Croatia (and its regions) as best as possible for use of these funds, it is necessary to set certain development documents, establish and reorganize (reassign) some institutions and improve cooperation with the EU regions.

Key words:

regional policy, European Union, Structural funds, Cohesion Fund, new member states, Croatia, Istria

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INTRODUCTION

The goal of this paper is to add to the understanding of EU regional policy, to analyse the mechanisms of its functioning, as well as the opportunities for and challenges to Croatia and its regions in the utilization of available funds. The research took as its point of departure the following propositions: (a) EU regional policy contributes to the development of beneficiary regions and countries; (b) Croatia currently has very limited capacities to make use of EU regional policy instruments, and it is not sufficiently prepared to absorb such projects and programs; (c) Istria stands out in the efforts it is making and in the utilization of opportunities to participate in various projects and can, therefore, serve as a guide to other Croatian regions.

The paper begins with the fundamental characteristics of the EU regional policy, its principles and goals. The procedure for obtaining financial resources from the Structural funds (SFs) is outlined and the picture of future fund priorities and instruments is drawn. Then follows a detailed analysis of the allocation of the funds by the member states and the effects the funds have had in their economic development. Special attention is given to the analysis of regional policy with respect to CEEC, both while they had the status of candidates and, now, as full members of the EU, and the effects of the aid received.

The EU's position with respect to Croatia is reflected in the policy for the Western Balkan region, which also determines access to EU funds and programmes. The characteristics of regional policy in Croatia will be analyzed, highlighting the difficulties and disadvantages. The prospects for including the Croatian regions the EU programmes and projects is especially illustrated through the case of Istria, one of the most developed Croatian regions. This case, together with the analysis of procedures for receiving funds through various instruments of regional policy, has helped in the identification of measures that are essential for an improved, more extensive and more qualitative introduction of Croatia to EU regional policy.

EUROPEAN UNION REGIONAL POLICY

Main principles and objectives

The regional policy is based on *financial solidarity*, which means that all regions and their citizens should be able fully to use all the advantages of a common market and the economic and monetary union and aid to underdeveloped regions in the process of restructuring so they will be able to respond to the strong competition in the single market (Hitiris, 2003: 231). All the SFs' activities should be based on five principles:

- *concentration* refers to geographical concentration and it was defined through the SF goals (objectives);
- *programme planning* refers to multiannual programmes of allocation of regional policy funds;
- *additionality* means that national policies of regional development are supplemented with projects and financial resources from the SFs; these policies have to be complementary (Barnes and Barnes, 1995: 278-279);
- *partnership* means that European Commission and national authorities discuss the allocation of EU regional funds;
- *effectiveness* means monitoring and evaluation to ensure that the objectives are observed.

The fundamental criteria by which a certain region (country) is recommended as a beneficiary of regional EU policy funds are the following: below-average level of per capita GDP compared to the EU average, and above-average unemployment rate.

The basic solidarity instruments comprise four Structural funds: European Regional Development Fund (ERDF), European Social Fund (ESF), The Financial Instrument for Fisheries Guidance (FIFG), European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance).ⁱ

Box 1 The priority objectives of the Structural funds financing

- Objective 1: Regions whose development is lagging behind the EU average (GDP per capita lower than 75% of the EU average; the thinly populated regions of Finland and Sweden and the most remote regions); providing them with the basic infrastructure

which they continue to lack or encouraging investment in economic activity. It targets 50 regions that represent 22% of the EU population and receive 70% of the total funding. All these regions post numerous negative indicators: low investment levels, a higher than average unemployment rate, lack of services for people and business, poor basic infrastructure.

- Objective 2: Areas facing structural difficulties (industrial or service sector subject to restructuring, loss of traditional activities in rural areas, declining urban areas, difficulties in the fisheries sector) supporting economic and social conversion in industrial, rural, urban or fisheries-dependent areas facing structural difficulties (high unemployment rates, poor areas, low level of employment etc.). This covers 18% of the EU population and receives about 11.5% of the total funding.
- Objective 3: Development of human resources – modernisation of systems for training (education) and employment promotion. This refers to the whole of the EU, except the regions included in Objective 1. This goal receives 12.3% of the total SFs funding.
- There are also four Community Initiatives (CI) seeking common solutions to specific problems. They account for 5.35% of the SFs on: cross-border, trans-national and interregional cooperation (Interreg III); sustainable development of cities and declining urban areas (Urban II); rural development through local initiatives (Leader +); combating inequalities and discrimination in access to the labour market (Equal).
- An additional 0.65% of the total SFs funding is spent on innovative measures, which are the only ones managed directly by the Commission and which deal with pilot projects or innovative strategies for cooperation and exchange of experience concerning local and regional development (European Commission, 2002c).

Apart from these four funds, the Maastricht Treaty also established the Cohesion Fund (CF), assigned aid to the four least developed countries: Greece, Portugal, Ireland and Spain, with per capita GDP lower than 90% of the EU average (in 1992). This fund now also benefits the ten new member states and finances projects in the areas of environmental protection and transport. During the period 2000 to 2006, the annual budget for the CF is projected to be 2.5 billion euro annually, i.e., 18 billion euro for a period of seven years.

Funding from Structural funds

Funds are allocated in the form of non-refundable grants, according to particular programme periods. The SFs do not allocate funds directly to individual projects approved by the European Commission, as this is in the jurisdiction of national and regional authoritiesⁱⁱ.

Once projects have been selected, they are financed from programme budgets composed of EU funds as well as of national sources (public or private).

The European Council determines the budget of the SFs and the rules governing their use, i.e., all members of the EU make decisions, on the basis of a proposal from the European Commission that has been negotiated with the European Parliament. Only then is the scheme of fund allocation by country and by goal defined. When this is established, each country or region elaborates its proposed development plan (for aid to areas with difficulties and for particular social groups). These plans are then sent to the Commission which discusses them with the member states. They also discuss the national and community resources needed for the implementation of these programmes. Once a consensus has been reached, the Commission accepts plans and programmes, and payments are made into the account of a particular member state. More detailed plans for those programmes (Programme Complements) are prepared by national and regional entities and the invitations for tenders are issued officially and publicly. The relevant authorities choose projects that best fit the programme goals. The progress of programme implementation is monitored by the national authority and the Commission is informed of the results.ⁱⁱⁱ

On the other hand, CF and Instrument for Structural Policies for Pre-Accession (ISPA) do not co-finance programmes, but projects or parts of projects. Projects are submitted to the Commission, managed by national authorities and monitored by the Monitoring Committee. Successful implementation of these policies depends on close cooperation of European, national and regional authorities.

The future of the European Union regional policy

The future of EU regional policy will be oriented to meet four challenges during the 2007-13 programming period:

- increasing cohesion in an enlarged Union (socio-economic disparities will double and the average GDP of the EU will decrease by 12.5%);
- strengthening EU priorities (the most successful and competitive knowledge-based economy in the world by 2010);
- improving the quality (capacity) to promote sustainable and more balanced development;
- creating a new partnership for cohesion (European Commission, 2004c: 28-29).

Table 1 Structural funds: instruments and objectives now and in the future

2000-06		2007-13	
Objectives	Financial instruments	Objectives	Financial instruments
Cohesion Fund	Cohesion Fund	Convergence and competitiveness	Cohesion Fund ERDF ESF
Objective 1	ERDF ESF EAGGF – Guidance FIFG	Regional competitiveness and employment – regional level – national level European employment strategy	ERDF ESF
Objective 2	ERDF ESF	European territorial cooperation	ERDF
Objective 3	ESF		
Interreg	ERDF		
URBAN	ERDF		
EQUAL	ESF		
Leader+	EAGGF – Guidance		
Rural development and restructuring of the fisheries sector (outside Objective 1)	EAGGF – Guarantee FIFG		
Nine objectives	Six instruments	Three objectives	Three instruments

Source: European Commission (2004c:29)

It is already known that approved funds for cohesion policy in the given period would be around 336 billion euros (European

Commission, 2004c). Regional policy will concentrate more on three objectives (now nine objectives), which will be achieved by using only three financial instruments (funds).

STRUCTURAL FUNDS ALLOCATIONS AND THEIR EFFECT ON EU-15

SFs are the most important sources of EU aid to regional development. The share of countries in the allocation of the SFs depends on their economic development level.

Structural funds allocations in the EU-15

For the period 2000-06, 213 billion euros are forecast for the EU-15, and an additional 22 billion euros for pre-accession aid and another 22 billion euros in structural interventions for new member states (2004-06), comprising a total of 257 billion euros. This sum represents 37% of the EU budget (European Commission, 2004c)^{iv}.

Table 2 Structural funds and instruments for the EU-15, in the period 2000-06 (millions euro, commitments in 2004 prices)

Member countries	Obj. 1	Obj. 2	Obj. 3	FIFG	CF	CIs	Total	% popul. (O 1+O 2)	Allocation by country (%)
Austria	288	740	585	0	0	395	2,008	28.2	0.9
Belgium	690	486	817	33	0	231	2,257	12.5	1.0
Denmark	0	199	397	221	0	92	909	10.2	0.4
Finland	1,008	541	442	33	0	280	2,304	51.7	1.0
France	4,201	6,569	5,013	254	0	1,155	17,192	34.0	7.4
Germany	22,035	3,776	5,057	121	0	1,775	32,765	29.8	14.0
Greece	23,143	0	0	0	3,388	952	27,483	100.0	11.8
Ireland	3,409	0	0	0	584	183	4,177	26.6	1.8
Italy	24,424	2,749	4,129	110	0	1,294	32,707	46.5	14.0
Luxembourg	0	44	44	0	0	14	103	28.2	0.0
Netherlands	136	861	1,866	33	0	719	3,615	15.0	1.5
Portugal	21,010	0	0	0	3,388	741	25,139	66.6	10.8
Spain	42,061	2,904	2,363	221	12,357	2,162	62,067	80.7	26.6
Sweden	797	431	795	66	0	307	2,396	18.9	1.0
UK	6,902	5,068	5,046	132	0	1,061	18,209	32.2	7.8
EU-15	150,104	24,367	26,553	1,226	19,717	11,361	233,328	40.3	100.0

Source: European Commission (2004c:13)

The most funds for Objective 1 in the period 2000-06 will be received by Spain, Italy and Greece. The most funds in Objective 2 were assigned to France, the UK and Germany. These three countries will also receive the most through Objective 3. Spain, Italy and Germany receive the largest share of total funding.

Effects of European Union regional policy on countries within the Cohesion Fund

The results of EU regional policy show positive trends, best observed through certain economic movements by a comparison of indicators for 1991 and 2002 for countries within the CF.

Table 3 Comparison of economic indicators: effects of European Union regional policy (in %)

	Greece		Ireland		Portugal		Spain		EU-15	
	1991	2002	1991	2002	1991	2002	1991	2002	1991	2002
Employment rates	53.4	56.9	51.4	65.0	68.0	68.6	49.2	58.4	62.2	64.0
Unemployment rates	9.7	10.0	11.9	4.3	7.4	5.1	22.3	11.4	–	7.3
GDP per capita in PPP (% of EU-15 average)	60.6	70.8	76.8	125.3	65.0	70.6	80.7	86.0	100.0	100.0
	91-95	96-01	91-95	96-01	91-95	96-01	91-95	96-01	91-95	96-01
Average annual GDP growth rates (constant prices 1995)	1.3	3.6	4.8	9.1	1.8	3.4	1.5	3.6	1.6	2.5

Source: European Commission (2004a).

Data from Table 3 illustrate the results of access to regional policy funds:

- the employment rates significantly increased in Cohesion countries, and in Ireland and Portugal in 2002 employment rates were higher than EU-15;
- the unemployment rates decreased and Ireland and Portugal have the lowest unemployment rates among Cohesion countries;
- the GDP growth rates of Cohesion countries, except Ireland, surpassed the average of the EU by 1% per year in the period from 1996-2001; the growth of GDP in Ireland was several times faster than the

EU average, the result of major efforts of national policy and also EU regional policy;

- GDP per capita increased in all Cohesion countries, and Ireland had the biggest level, above the EU average in 2002 (it is no longer eligible for the CF).

REGIONAL POLICY OF THE EUROPEAN UNION TOWARDS NEW MEMBER STATES

The EU was enlarged on May 1, 2004 by ten new member states. This enlargement is historical for several reasons: it is the biggest enlargement there has ever been; and these countries are underdeveloped as compared to the EU average. EU regional policy towards the new member states can be observed in two phases: before and after accession to the EU.

Regional policy of the European Union before the latest enlargement

The EU developed numerous programmes to aid the CEEC to achieve faster and more qualitative reforms and the fulfilment of criteria for EU membership. The most important and the richest programmes are the following:

- PHARE programme, focused on two priority areas: (a) the building of necessary institutions in the process of approach of these countries to the EU and (b) the financing of investment projects during the period 2000-06.^v
- ISPA programme funds are used through investment projects for building transport infrastructure and infrastructure related to environmental protection.^{vi}
- Special Accession Programme for Agriculture and Rural Development (SAPARD) is oriented towards solving problems of structural adjustments in the sector of agriculture and rural development of candidate countries, and to provide assistance in utilization harmonisation with EU legislation in the sector of agricultural policy. The countries entering the EU were included in the Common Agricultural

Policy of the EU and, in this way, they will receive support in the development of this sector.^{vii}

To absorb successfully aid received through various programmes and in order to achieve high economic growth in all its regions, a country must make a lot of effort to build an efficient institutional framework that allows the successful management of future EU funding (Lajh, 2003).

Regarding the entrance of the eight CEEC in the EU, access to these programmes will now be reduced because these countries will now be able to make use of the SFs and CF^{viii}.

Table 4 Total sum of PHARE, ISPA and SAPARD by country (in millions of euro)

Countries	PHARE 1990-2002 (payments)	ISPA 2000-2003 (payments)	SAPARD 2000-2Q 2003 (payments)	Total	Total funding (euros per capita)	Payments/ commitments (%)
Bulgaria	827.6	61.3	29.0	917.9	112.6	51.3
Czech Republic	490.5	90.0	26.3	606.8	58.9	53.4
Estonia	195.0	32.3	15.9	243.2	177.9	56.2
Hungary	968.7	114.4	9.5	1,092.6	107.1	63.6
Latvia	249.0	50.7	12.4	312.1	89.3	53.9
Lithuania	330.4	71.2	25.2	426.8	180.4	44.6
Poland	2,099.5	376.2	42.5	2,518.2	65.2	49.4
Romania	1,084.6	136.4	37.5	1,258.5	56.1	40.5
Slovakia	343.6	58.7	5.7	408.0	75.8	51.0
Slovenia	195.7	22.0	5.3	223.0	112.1	60.1
Czechoslovakia	228.9	—	—	228.9	—	—
East Germany	28.9	—	—	28.9	—	—
Multi-country programmes	1,706.6	—	—	1,706.6	—	—
Total	8,748.9	1,014.2	209.4	9,972.5	95.6	50.1

Source: European Commission (2003a; 2003b; 2004b).

The CEEC received various amounts of assistance per capita: Lithuania and Estonia received the most, while Romania (it is not yet an EU member) and the Czech Republic received the least (Table 4). There was a very low rate of accessing total commitments, the lowest rate being for the ISPA and SAPARD programmes (23% and 33%). The PHARE programme is the best exploited, and payments represent 63% of total commitments. Hungary and Slovenia are the most successful countries in absorbing pre-accession aid.

Table 5 Comparison of economic indicators for Central and East European Countries: effects of pre-accession aid

	Employment* (%)	Unemployment (%)		GDP per capita in PPP (% of EU-15)		GDP growth rates (average annual)	
	2002	1991	2002	1994	2002	1991-95	1996-01
Bulgaria	50.6	11.1	17.8	26.6	26.4	-3.2	0.2
Czech Republic	65.4	4.1	7.3	—	61.6	-0.8	1.6
Estonia	62.0	—	9.5	32.1	43.3	—	5.7
Hungary	56.2	7.8	5.6	46.3	53.3	-2.2	4.0
Latvia	60.4	—	12.6	26.6	38.1	—	5.8
Lithuania	59.9	—	13.6	27.8	39.8	—	4.6
Poland	51.5	11.8	19.8	38.5	41.7	2.3	3.3
Romania	57.6	3.0	7.5	—	26.4	-1.8	-0.1
Slovakia	56.8	11.8	18.7	45.4	47.1	-2.6	3.7
Slovenia	63.4	10.1	6.1	62.5	69.5	-0.4	4.1
EU-15	64.2	—	7.7	100.0	100.0	1.6	2.5

*Data about employment rates were not available for 1991.

Source: European Commission (2004a); Eurostat (2003); WIIW (2003).

By reference to the data in Table 5, we can conclude that most CEEC improved GDP growth rates in 1996-2001 but did not solve the problem of higher rates of unemployment and lower employment rates than in the EU as a whole. Per capita GDP increased in all countries except Bulgaria but is still at a very low level. There was no direct correlation between aid received and economic performance; for example, the Czech Republic received a small amount of aid per capita but it had a very high employment rate (above the EU average), a low unemployment rate, and the second per capita GDP in EU-15 per cent terms in the CEEC. On the other hand, Lithuania and Estonia had high growth rates of GDP in 1996-2001, but also lower employment rates and higher unemployment rates than the Czech Republic. Based on these indicators, it cannot be concluded that EU assistance through the various programmes contributed to any significant growth in the CEEC. This is understandable, since their starting positions were marked by legacies significantly different to those of the other less developed EU countries (Greece, Spain, Portugal). However, the assistance programmes of the EU produced results in the development of the infrastructure, institutions and markets of all countries. It is evident that the countries should not expect the EU to solve their economic problems. They should create a qualitative development strategy in which EU assistance repre-

sents only one of the resources necessary to support the accomplishment of the goals that have been defined.

In addition to the PHARE, ISPA and SAPARD programmes the CEEC were given opportunities to participate in one of the CIs – Interreg III, which relates to the border regions between the EU and CEEC. It is important for strengthening economic and social cohesion throughout the EU, by fostering balanced development of the continent through cross-border, trans-national and interregional cooperation.

Regional policy of the European Union after the latest enlargement

After the accession of 10 candidates to full membership, regional disparities increased even more. New member states become eligible for access to funds from SFs and CF because of the low level of per capita GDP in comparison with the EU average (Table 5). Funds in the CEEC are directed to those goals of economic and social development set individually for each member country.

Table 6 The allocation of Structural funds and Cohesion Fund to the new member states in the period 2004-06 (in millions of euro)

Country	Obj. 1	Obj. 2	Obj. 3	Interreg	Equal	CF	Total	% population (O1+O2)	Allocation by countries (%)
Czech R.	1,454.3	71.3	58.8	68.6	32.1	936.1	2,621.2	92.0	10.7
Estonia	371.4	0.0	0.0	10.6	4.1	309.0	695.1	100.0	2.8
Cyprus	0.0	28.0	22.0	4.3	1.8	53.9	113.4	30.9	0.5
Latvia	625.6	0.0	0.0	15.3	8.0	515.4	1,164.3	100.0	4.8
Lithuania	895.2	0.0	0.0	22.5	11.9	608.2	1,537.7	100.0	6.3
Hungary	1,995.7	0.0	0.0	68.7	30.4	1,112.7	3,207.4	100.0	13.1
Malta	63.2	0.0	0.0	2.4	1.2	21.9	88.7	100.0	0.4
Poland	8,275.8	0.0	0.0	221.3	133.9	4,178.6	12,809.7	100.0	52.4
Slovenia	237.5	0.0	0.0	23.7	6.4	188.7	456.3	100.0	1.9
Slovakia	1,041.0	37.2	44.9	41.5	22.3	571.0	1,757.4	91.9	7.1
Total	14,959.7	136.5	125.7	478.9	252.1	8,495.5	24,451.2	97.7	100.0

Source: European Commission (2004c).

These new member states will receive a total of 24.5 billion euros during three years, mostly through Objective 1 and CF. In the

majority of countries the entire population is in the area eligible for Objective 1 and 2. Poland and Hungary will receive most of the total funding.

CROATIA AND EUROPEAN UNION REGIONAL POLICY FUNDING

Croatia entered the process of the transition of its entire economic and political system at the same time as the CEEC, with the purpose of establishing a market economy. Large regional disparities are one of the problems that Croatia inherited from the former state and the situation worsened significantly during the war (through emigration, destruction of infrastructure, closing of companies) pushing areas already poor into deeper underdevelopment.

Croatian regional policy

In the last decade Croatia has not had a coherent strategy of regional development. What regional development legislation there was tended to be partial, merely regulating relief for certain specially defined areas (for instance, tax reductions and exemptions for the population of the war-affected areas) (Čavrak, 2003).

There is no document capable of encompassing the problem of regional development in the entirety of Croatia. However, increasing attention is now being paid to regional development through projects and legislation. The Concept of Regional Economic Development of Croatia was created in 1999. It stipulates that regional policy has to be decentralized and implemented at the national level^{ix} (Frohlich, 1999).

The document "Development Guidelines of the Republic of Croatia" (a part of the Strategy of Development of the Republic of Croatia "Croatia in the 21st century") was adopted in 2001 (Government of RC, 2001a). This document gives special significance to investments in infrastructure, which would, consequently, initiate development of mountain, border, and island (depopulated) regions. The document "Development priorities of the Republic of Croatia 2002-04" (Government of RC, 2001b) was adopted in 2001 and it further elaborates the question of regional development. The following are empha-

sized among goals of regional development: harmonization of the regional system with the EU system; establishment of a regional policy by Croatia starting to utilize resources from the EU funds for regional development in the shortest period.

The Law on the Fund for Regional Development (NN 107/01) and the Law on the Fund for Development and Employment (NN 107/01) were passed subsequently. The Fund for Regional Development is intended to support the development of areas affected by the war, thinly populated regions, areas of special state concern, islands, highland and mountain areas, border areas, areas with structural problems. The continuity of such a policy was ensured by the adoption of the Law on Islands (NN 34/99, 32/02), the Law on Areas of Special State Concern (NN 26/03), the Law on Highland and Mountain Areas (NN 12/02, 117/03). Thus the Croatian authorities are paying special attention to the less developed regions in the country, but the policy is fragmented, and it has not achieved the expected level of positive results. This policy, which applies only to less developed regions, has to be replaced with a complex regional policy that will cover the whole territory of Croatia and will also help developed regions to become more competitive and be able to withstand pressures from the strong competition of the single market (when Croatia becomes a member of the EU).

No institutional framework for the implementation of regional development exists in Croatia. Only a few counties have a special agency for regional development. The Ministry of Sea, Tourism, Transport and Development is responsible at the national level, but a problem appears at the regional level, for every region (county) has its own bodies for the implementation of regional development.

Croatia is characterised by fiscal centralization, since, in spite of the partial decentralization carried out, no adequate distribution of responsibilities and fiscal capacities among bodies of local self-government and administration and the central state exists. Regional governments are still much too dependent on the central government, and too little responsive to the requirements of their own populations; this is a situation that certainly needs rectifying. At the moment between 6 and 9% of non-earmarked budgetary funds have been decentralised, while in the coming phase these figures should be increased to 20-25%, the intention being to reach an ultimate degree of decentralisation of between 50-70% of budgetary funds (National Competitiveness Council, 2004).

The European Local Self-Government Charter says that local authorities, acting within the limits of the law, should be able to regu-

late and manage public affairs under their own responsibility in the interests of the local population. Local authorities should be closest to the citizens (Council of Europe, 1985).

Croatia ratified the European Local Self-Government Charter and adopted a number of its provisions in 1997. The first phase of the Government's programme of decentralization began in July of 2001 with amendments to a number of laws, including the financing, organization and election of representative bodies of local and regional government, and the government bound itself to bring its legislation on local self-government into accord with European standards. Local authorities were given the right to regulate and manage public affairs in their own area of competence in the interests of the local population. Responsibility for the provision of public services was delegated to the authorities closest to the citizens, a higher level being considered only when the co-ordination or discharge of duties was impossible or less efficient at the level immediately below.

Economic differences in Croatia are analysed in Table 7 (Annex). There are major disparities in the way individual counties account for percentages of GDP (the City of Zagreb and the Primorje-Gorski kotar County accounted for the largest proportions), of exports (the City of Zagreb and Istria County were the leaders here), and in imports (City of Zagreb and Zagreb County). The City of Zagreb and the County of Istria also had the highest employment rates and the lowest unemployment rates. These two counties are the most developed regions in Croatia, as illustrated in the data of Table 7. Thus it is interesting to know how one of these two counties uses EU aid. On the other hand, there are a many counties that have employment rates lower than the Croatia average, and very high unemployment rates; and they are faced with very deep structural problems.

This analysis shows that Croatia is in this phase falling behind in the development of regional policy, which makes the utilization of funds from the SFs and CF more difficult since it requires properly elaborated strategies with detailed goals and the problems of regional development set out. The solutions of these problems have to be in a qualitative realization of the project "Strategy and Strengthening Capacity for Regional Development" started in October 2003 (technical support is given by the CARDS programme, and the coordinator is the Ministry of the Sea, Tourism, Transport and Development) with the following special aims: defining the national strategy for regional development, and a legislative framework for regional policy. A documentation basis is the prerequisite

for being involved in programmes of regional policy that will be created by the accession of Croatia to the EU.

European Union funding in Croatia

Croatia is not yet a member of the EU so it cannot have access to SFs and CF at this stage. The EU offered a new programme of aid to the Western Balkan countries called CARDS in 2000, as a part of the Stabilisation and Association Agreement (SAA)*. Its basic purpose is to support reforms and the building of institutions necessary to implement SAA obligations.^{xi} High priority is accorded to regional development, as summarised in two principal goals: to reduce developmental imbalances, in particular promoting the prospects for sustainable development of the war-affected areas, rural areas and islands, and decentralisation, territorial reorganisation and strengthening of local authorities.

*Table 8 European Union assistance to Croatia 1991-2003 (in millions of euro)**

Programmes	1991-2003
OBNOVA/CARDS	244.2
ECHO humanitarian aid	292.3
Media	3.4
Democracy & Human Rights	5.2
Specific actions	5.2
Total	550.3

* *Commitments because data about payments were not available.*

Source: European Commission (2002a).

The aid to Croatia was directed towards relief work during the period 1991-1995, and reconstruction and refugee-return from 1996 to 1999. Between 1991 and 2000, 65% of the received aid was directed to relief projects. This means that only around 128 million euros were focused on restructuring the economy. This is a relatively small amount when compared to that received by the CEEC. EU assistance in 2002-2004 is focused on: democratic stabilisation, economic and social development, justice and home affairs; assistance for public administration reform and implementation of the SAA, environment and natural resources. There are a large number of projects available to Croatia (European Commission, 2001) and they can help Croatia to develop necessary institutional and economic framework in accordance with EU

standards. Croatia might obtain through these projects some ideas about the reform of institutions and the legislative system and how to achieve it, how to improve the functioning of market economy and so on.^{xii}

Box 2 How to get access to information on funds from the CARDS programme?

The simplest method is by searching the Internet, especially the web pages of EUROPEAID [<http://europa.eu.int/comm/europaid/cgi/frame12.pl/right>], which describe projects offered by the EU per various assistance programmes. On the left hand side is a menu with the following categories: programmes (CARDS), project status (forecasted, open, closed), project type (services, works, supplies, grants), region and/or country. Search results by given parameters can be obtained by clicking on the “Submit Query” button. After entering the request, all relevant, detailed information concerning applications for the specific project are displayed. It is worth mentioning that the Global Forecast is published at the beginning of each year, from which information is available on which projects were forecasted for which country per particular programme. This makes the preparations for proposing a particular project much easier.

Also, the web pages of the Delegation of European Commission to the Croatia can be viewed at [http://www.delhrv.cec.eu.int/en/item2/topic_5.htm], which encompasses all calls for proposals in which Croatia can participate.

There is also the monthly booklet “EU Funding Opportunities in Brief”, which contains information about environmental and energy-related funding opportunities, public tenders, conferences and training courses in Europe that could be interesting to professionals from Croatia [<http://www.eucenter.org/registration.php>].

Croatia became a candidate for full membership in the EU in June 2004, and the EU adopted a pre-accession strategy for Croatia in October 2004; now the EU is providing more funds for Croatia so that the country can more easily execute and conclude the various and numerous reforms required for membership in the EU. Croatia has the opportunity to have access to the PHARE, ISPA and SAPARD programmes. For the period 2004-2006 it was provided with access to a total amount of 245 million euros through these three programmes.

Although Croatia is not eligible to use funds from SFs by the “territoriality principle” (MEI, 2004), an exception was found through various forms of cooperation of Croatian regions with the regions of full EU member states. In this system, member states regions use funds from SFs while the regions of non-member countries must secure their own funds for participation in such projects. These projects were submitted and approved within CI – Interreg III that consists of three strands:

- Strand A: cross-border cooperation – aims to develop cross-border social and economic centres through common development strategies. Croatia enters the part named Interadriatic cooperation (European Commission, 2002b);
- Strand B: trans-national cooperation – involving national, regional and local authorities – aims to promote better integration within the EU through the formation of large groups of European regions. Eleven geographical regions were defined within Interreg IIIB programme and Croatia is in the region Central European, Adriatic, Danube, South-Eastern Space (CADSES);
- Strand C: interregional cooperation – aims to improve the effectiveness of regional development policies and instruments through large-scale information exchange and sharing of experience (networks). The entire European region was administratively divided into four zones: East, West, North and South. Croatia is in the East zone.

From the description of these strands it is obvious that interregional cooperation is a prerequisite for a region from a non-member country to be able to participate in Interreg III. The County of Istria is an example from which it is possible to analyse the opportunities for Croatian counties to take part in Interreg III.

County of Istria and European Union regional policy

Istria is the westernmost Croatian region, and historically and development-wise stands out within Croatia. With respect to its economy, Istria is one of the most developed Croatian regions (Table 7). Since EU assistance was mostly directed to aiding the war-affected regions, it is interesting to analyse the position of Istria (it was not war-

affected) with respect to the ability to obtain funds from EU programmes and to the channelling of these funds.

There are several factors that are important for the participation of a region in the projects of Interreg III:

- Inter-regional cooperation – because in this way it is easier to find partners from the EU member states for submitting a project within the initiatives. Istria signed documents on cooperation with four regions in Italy, one region in Hungary, one in Austria and one in Romania. Currently in preparation and harmonization are certain forms of cooperation with regions of Poland, the Russian Federation, Romania and Italy;
- The inclusion of Istria in the work of the Assembly of European Regions (AER). The County has participated in it since 1994 (a precedent – the first region from a country that at the time was not a member of the Council of Europe). This enabled the County to participate not only in the work of the AER, but also in the programmes: Centurio, Eurodysee, Summer School^{xiii};
- Being informed about the legislative framework relating to mutual cooperation in neighbouring countries^{xiv}.

The participation of Istria in various projects of Interreg III and the goals of such participation are shown in Table 9 (Annex), most of the work being done in Strand B. To be able to answer the questions: what did Istria obtain through participation in Interreg III, where have problems appeared, how can these problems be solved – one project, Common Strategy Network for Spatial Development and Implementation (CONSPACE), is chosen for detailed analysis^{xv}.

Istria was able to include itself in the process of preparing project proposals because the county administrators were well educated, they were well informed about the EU and the possibilities of getting access to EU funds. Some of the employees have been educated in the area of European studies. Istria has wide-ranging cooperation with other regional entities in the neighbouring countries. Thus the officials knew where to look for an opportunity to have Istria involved in different projects. The very important fact is that Istria was not affected by the war, so it did not face the same problems almost all the other counties did. Istria has consistently wanted to move ahead and it has opened the door (shown the way) to other counties in participation in Community Initiatives. Other counties may want to learn from the Istria

experience because the county has achieved significant results. The most important is the willingness and desire to do and develop some common project in cooperation with other regional entities from abroad. All local authorities must understand that the EU wants local government units to show that they are able to cooperate with each other. Only in this way can they have access to the limited Community Initiatives funds.

Box 3 Common Strategy Network for Spatial Development and Implementation

Discussions on project proposals began in Ljubljana in 2002. The project was approved on April 1, 2003 and has been on-going for 36 months. The participating regions come from: Italy, Austria, Slovenia and Hungary. Croatia is represented by the County of Istria, County of Primorje-Gorski kotar and the Ministry of Environmental Protection, Physical Planning and Construction. The project was divided into six work packages. Istria participates in three packages: Transnational management; Harmonisation of tools, data and procedures and Transnational strategy-regional development. The first two work packages collect existing data into one database, whilst the third work package should determine a mutual strategy of urban development with goals and monitoring indicators.

The interest of Istria in participation in this project is in the introduction to strategies for urban development in the EU member states, in order to determine where we stand, and in which direction local and national urban development strategy should go. Participation in this and similar projects provides experience for later access to SFs and CF. Partners from the EU member states are not familiar with Croatian legislation and structure from the point of view of responsibilities for the creation of urban development plans nor with the structure of urban development. Therefore, through this project, they have a chance to learn about these issues and, based on their own experiences, suggest certain changes in Croatian system.

Istria County has met the project's obligations without problems. The obligations relate to providing various data on urban development in order to create a mutual database. There are no problems in cooperation with regions. However, there is a problem of a vertical nature between the County of Istria and the competent Ministry, which, in spite of the signed agreement, did not take part

seriously in the project and does not provide information from its field. The picture is even worse when it is apparent that the information does not need to be collected but already exists in the statistics and should only be processed and sent out in order to help in the creation of a complete database of the regions and countries participating in the project. For that reason, the leader of the project at the regional level was forced to do a double job and send data for local and national levels. The package proposal projected that the Croatia should lead Work Package 2, yet, due to insufficient cooperation, this part of the project was assigned to Slovenia.

Meetings within each work package are held every six months. Financial reports are being submitted, although Croatia does not utilize the EU funds. Istria covers the expenses of participation in meetings and provides for a part of the project leader's pay. Therefore, Istria is gaining nothing in a financial sense – on the contrary, it must invest its own resources. Yet, it still chooses to participate in this project since the urban planning is a genuine problem for Croatia, and especially, for its coastal areas.

Istria's expectations from participation in different projects are: training of employees in participation in international projects (introduction to the methodology of neighbouring regions and countries, development of common methodology, specialization in technical communication with experts within the EU) but also in opening up possibilities for joining other Interreg projects of the A and C strands and other possible funds of the EU (CARDS programme, for instance).

Extensive financial resources for the development of this region cannot be expected in this phase. However, it is important to enter the system of EU financing because every day (now that Croatia has become a candidate for accession to the EU) there should be more and more possibilities for obtaining funds. Thus, officials on the national and regional levels should be prepared for this and submit calls for projects in a timely manner, and use funds made available by the EU. Croatia should not repeat the experience of the CEEC, in which the utilization of the total mass was relatively small (Table 4). This means that part of the planned resources remained unused due to lack of ideas and innovations. For these reasons Croatian officials should already start to learn how to submit calls for projects, participate with other regions from the Western Balkan area (where Croatia was classified by the EU) and with regions of the EU-15.

CONCLUSIONS AND RECOMMENDATIONS

Croatia is a country with a GDP lower than 75% of the EU average, and it is facing structural problems. Once it becomes an EU member, Croatia would be classified in the group of beneficiaries of SFs and CF. However, as it is presently only a candidate, Croatia can have access only to funds from the CARDS programme and financial means from CI – Interreg III. From the beginning of next year the programmes PHARE, ISPA and SAPARD will be also open to Croatia. The problems in the possibilities of the utilisation of EU assistance are:

- The current legislative framework in Croatia does not contain a single act capable of systematically addressing problems in regional development for the entire national territory. Regional policy is segmented and oriented only towards the less developed and war-affected regions. Problems of the institutional framework for the implementation of regional development exist.
- Although the Fund for regional development does exist, it has so far only been through support given to regional development projects from the budget, and has not followed up the participation of Croatian regions in EU projects. In the future it should have one of the key roles as the central institution in Croatia through which programmes of EU aid can be effectuated.
- The experience of Istria shows that regional and national authorities are not sufficiently well coordinated in cooperation with other regions. The national authority is not sufficiently included in the implementation of project obligations, the result being that a bad image of Croatia is produced.

It appears that at the macro level we are not ready to use the opportunities that are opened up through participation in programmes and projects of the EU for stimulating regional development. The case of Istria has shown that a lot can be done even in the current phase and that we can participate in projects, even though Croatia is not an EU member. This case should be instructive for other counties in Croatia. The employees of Istria county went through various kinds of training about the basics of the EU and also about the ways in which it is possible to participate in different projects. The County has very good connections and qualitative cooperation with regions from some EU member countries and this is a good prerequisite for obtaining access to the EU funds.

Participation in projects is the result of county efforts. They should not expect that the national government will participate in EU programs and projects and that it will indirectly include them in projects. Every region has to play a very active role in competition for participation in CARDS and also in CI – Interreg III. The prerequisite is that counties should establish international cooperation with equivalent local government units from EU member states and should also have qualified public servants capable of meeting the demands of the project. Based on a thorough analysis, the following recommendations for national and regional level can be made:

- The passing of a National Development Plan as a long-term indicative implementing document of the Strategy for Economic Development. In the process of preparation of this Plan experts, scientists and institutes from different areas should be involved. This will be the basis for the negotiations on the financial allocations from the SFs and CF when Croatia becomes a full member of the EU.
- Definition of a national strategy of regional development that will be relevant to all Croatian regions. The earlier mentioned programme “Strategy and Strengthening Capacity for Regional Development” aims to define this strategy (it also involves different persons who deal with the problems of regional development, and the coordinator is the Ministry of the Sea, Tourism, Transport and Development).
- The establishment of regional development agencies to cooperate in the development of regions, manage programmes, and participate in their realization. This is part of the area of responsibility of the counties^{xvi}.
- The education of Croatian officials concerning the various opportunities for EU aid and the methods of obtaining access to these funds (Ministry for European Integration organizes a special training programme county employees)^{xvii}.
- Developing inter-regional cooperation and partnerships and hence being able to submit mutual projects (at the county level).
- Monitoring what is happening in the neighbourhood, staying informed (at the national level: Ministry for Foreign Affairs and Ministry for European Integration, and the counties at the regional level).

Although these recommendations might sound like major steps, this is the way Croatia has to go if it wants to reach the goal qualitative-

ly: to achieve higher levels of welfare and higher standard of living for all its citizens. Therefore it would be very worthwhile regarding the necessary reforms (here only a few key examples have been listed) in the light of measures that will positively affect Croatian economic development, and not merely as an obligation that is, at the moment, being indirectly imposed by the EU.

Annex

Table 7 Comparison of economic indicators of Croatian counties

County of	Share in population in 2001		Share in GDP in 2001		Export in 2003		Import in 2003		Export/import *100		Employment in 2002		Unemployment in 2002	
	%	%	%	%	mill \$	%	mill \$	%	%	%	000 persons	rate in %	000 persons	rate in %
Zagreb	7.0	4.7		2.4	149.0		940.4	6.6	15.9		58.9	29.1	20.7	26.0
Krapina-Zagorje	3.2	2.5		3.6	225.2		247.6	1.7	91.2		32.6	36.3	9.0	21.6
Sisak-Moslavina	4.2	3.3		6.0	371.5		406.9	2.8	91.5		38.2	33.3	21.4	36.0
Karlovac	3.2	2.6		1.8	94.0		166.3	1.2	67.3		32.3	37.3	16.6	33.9
Varaždin	4.2	4.0		306.8	5.9		510.7	3.6	71.9		49.9	42.2	12.5	20.0
Koprivnica-Križevci	2.8	2.5		128.2	2.5		192.2	1.4	81.6		28.4	36.2	9.4	24.8
Bjelovar-Bilogora	3.0	2.4		54.6	1.1		128.6	0.9	53.9		26.6	32.2	14.6	35.5
Primorje-Gorski kotar	6.9	9.0		230.0	3.8		637.9	4.5	37.2		101.5	50.4	21.6	17.6
Lika-Senj	1.2	1.0		3.4	0.1		7.9	0.1	70.2		10.0	32.7	4.4	30.2
Virovitica-Podravina	2.1	1.9		69.2	1.8		49.9	0.4	224.0		18.5	32.1	10.9	37.1
Požega-Slavonia	1.9	1.6		54.9	1.2		49.0	0.3	146.0		17.7	34.0	7.6	30.0
Brod-Posavina	4.0	2.8		56.8	1.0		104.2	0.7	60.7		32.9	30.2	20.0	37.9
Zadar	3.7	2.8		105.0	1.7		173.0	1.2	61.6		34.7	34.3	16.5	32.3
Ošijek-Baranja	7.4	7.2		419.2	6.8		307.1	2.2	136.0		77.3	36.7	37.4	32.6
Šibenik-Knin	2.5	1.8		54.2	0.9		96.4	0.7	56.6		23.3	34.6	14.3	38.0
Vukovar-Syrmium	4.6	3.2		88.2	1.4		99.3	0.7	88.3		33.1	25.8	23.9	42.0
Split-Dalmatia	10.4	8.6		557.7	9.0		907.5	6.4	61.3		107.1	36.1	49.3	31.5
Istria	4.7	5.6		745.4	12.0		775.2	5.5	96.4		71.2	52.6	10.0	12.3
Dubrovnik-Neretva	2.8	2.7		16.8	0.3		75.8	0.5	22.0		31.6	41.3	10.8	25.4
Medimurje	2.7	2.3		168.4	2.7		246.1	1.7	68.7		31.5	41.1	8.3	20.9
Zagreb	17.6	27.5		2,010.7	33.0		7,709.4	54.0	26.1		315.1	61.5	50.4	13.8
Total	100.0	100.0		6,186.6	100.0		14,209.0	100.0	43.6		1,172.6	41.5	389.7	25.0

Source: CBS, 2004; Data refer to employment, unemployment, GDP from Regio.hr

Unemployment rates are calculated: number of unemployed persons/number of employees+unemployed; so it is not comparable with ILO statistics; Employment rates are calculated as ratio of number of employees and labour force (men aged 15-64, women aged 15-59).

Coverage of imports by exports is calculated as $\frac{\text{export}}{\text{import}} * 100$; if the result is bigger than 100, a county has a positive trade balance, and if it is below 100, a county has a trade deficit.

Table 9 *Participation of the County of Istria in Community Initiatives*

Programmes		Areas	Goals
Strand A	Cross-border Programme Italy-Eastern Adriatic Countries	coastal area of Italy, the entire Croatia, Bosnia-Herzegovina, Serbia and Montenegro, Albania	Contribution to the formation of an Adriatic Euroregion: a homogenous territorial and maritime space because the countries of this area, with different levels of gravity, present problems and opportunities of similar advantage. Through this particular programme, Croatia can establish cross-border cooperation with Italy, and indirectly with Bosnia-Herzegovina, Serbia and Montenegro, and Albania.
Strand B	L.O.T.O. – Landscape Opportunities for Territorial Organization	9 participants, the leading partner is the Lombardy Region (Italy)	Development and improvement of methodology and methods of protection, improvement and development of landscape, promotion and presentation of networking among institutions in charge of landscape planning. Increasing awareness of and sensitivity to landscape values. Participation should provide evaluation of currently utilized methods in landscape evaluation at the national level and studies already made on Istria, especially in relation to European Convention on Landscape, to which Croatia is signatory and ratification of which is expected in the near future.
	CONSPACE – Common Strategy Network for Spatial Development and Implementation	9 participants, the leading partner is the Carinthia Region (Austria)	Realization of mutual trans-national development strategy of regions based on mutual experiences; the expectations of Istria: introduction to methodology which will be used in regional planning in neighbouring regions and countries, development of mutual methodologies in regional planning
	I-LOG – Industrial Logistic, Logistic and inter-modal transportation for sustaining small and medium enterprises development	23 participants, the leading partner is the Marche Region (Italy)	Assist transport operators through new instruments of information technology, and assist SME in reducing transport costs and increase of SME competition.
	ADRI FISH – Promoting of a sustainable FISHerY in Northern Adriatic Sea	6 participants, the leading partner is the Veneto Region (Italy)	To improve organization of fishing activities and SME communication, stimulate partnerships among entrepreneurs and innovations of information technology.
Strand C	ECOTOURISM – Places and Traditions	the leading partner is Provincia di Abruzzo	–

Source: *County of Istria, 2004*

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- i *The European Regional Development Fund (ERDF) finances infrastructure, job-creation investments, local development projects and provides aid for small firms; The European Social Fund (ESF) promotes the return of the unemployed and disadvantaged groups to the work force, mainly by financing training measures and systems of recruitment assistance; The Financial Instrument for Fisheries Guidance (FIFG) helps adapt and modernize the fishing industry; The “Guidance” Section of the European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance) finances rural development measures and provides aid for farmers, mainly in regions lagging in development; it also supports rural development under the Common Agricultural Policy in all other areas of the EU.*
 - ii *The projects were at the beginning financed by the system of national quotas, which resulted in some less developed regions within one developed country receiving more funds than more underdeveloped regions within less developed countries. This led to the need for the ERDF reform (the system quota/non-quota established in 1979, and the EU defined priorities which would be financed from funds for regional development while preparing for functioning of the single European market in 1989 and then it moved to a programming approach). Goals/priorities were defined for the periods: 1989-1993, 1994-1999, 2000-2006 (McDonald, F. & Dearden, S., 1999, 225).*
 - iii *From theory to practice, http://europa.eu.int/comm/regional-policy/intro/regions7_en.htm.*
 - iv *It is interesting to observe the geographical lineup of regions that are the candidates for Objective 1: from the total of around 50 regions (in some countries Objective 1 refers only to a part of a region), 14 regions are in Greece (the entire country), 10 regions in Spain, 6 regions in Italy and Portugal, 5 regions in Germany, 4 regions each in the United Kingdom and France, 3 regions each in Ireland, Finland and Sweden, and 1 region in Austria (EC, 2002c).*
 - v *The PHARE programme was initiated in 1989. At the beginning, the funds were directed into projects of infrastructure, private entrepreneurship development, education, specialization and research, environmental protection and nuclear safety, and the restructuring of agriculture.*
 - vi *The ISPA programme was initiated in 1999 to provide aid to candidate countries in adjusting to EU standards in the sectors of transport and environmental protection, <http://europa.eu.int/comm/enlargement/pas/ispa.htm>.*
 - vii *SAPARD was created in 1999. In order to obtain funds from these programmes, a country must submit several strategic documents (preliminary development plan for PHARE, ISPA strategy of environmental and transport investments, SAPARD-related seven year rural development plan and national development plan) and only those projects which fall into one of the measures defined in the strategies can compete for the assistance. Projects have to be in line with the commitments that country bound itself to in the negotiation process. A coherent structure for managing the assistance has to have been established. Finally, the smooth implementation of programmes and projects and the control of their quality is assured through ongoing monitoring and evaluation (Government of Slovenia, 2003).*
 - viii *Following accession, the ERDF and ESF will take charge of the interventions made by PHARE, while the CF will take charge of those by ISPA, and the EAGGF – Guidance those of SAPARD.*
 - ix *This Conception was prepared by Economic Institute Zagreb on the initiative of Ministry of Economy.*
 - x *Western Balkans: Croatia, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro and Albania.*

- xi *Croatia will, in addition, benefit from other measures under the regional programme (the European Initiative for Democracy and Human Rights, Life Third Countries, Youth Programme-Third Countries Co-operation, Regional Cooperation in Mine Action in South-East Europe etc.). Croatia can use funds from the Tempus programme, established for institutions and organizations in the process of reforming higher education. Its goal is to form co-operation among universities in the CEE and the EU.*
- xii *Public Administration Reform Project (EC, 2002a) – Public Administration Reform is an integral part of the SAA, since administrative capacity in the state administration must be sufficient to develop and implement new legislation and policies required by the SAA. The project is focused on three specific objectives: strengthening and modernising the current civil service regime through improved legislation and procedures for human resource management; improvement of the organisation, functioning and coherence of central civil service management systems; capacity building for delivery of training programmes for civil servants.*
- xiii *Centurio – with the purpose of professional specialization of personnel working in local self-government and management; Eurodysee-exchange of youth between regions which enables them to obtain professional experience (3 to 6 months); Summer School-congress tourism.*
- xiv *Law no. 84 of the Republic of Italy (passed on March 21, 2001), refers to Italian participation in the stabilization, reconstruction and development of countries in the Balkan region. Together with partners from Italy, Istria became a candidate for two projects: CONNECT and FISH.LOG. These are basic initiatives which lead towards the realization of a policy for the mutual management of the Northern Adriatic.*
- xv *Information was provided by Ms. Latinka Janjanin, project leader for the County of Istria.*
- xvi *Several regional development agencies already exist, for instance Istrian Development Agency (IDA), Local Economic Development Agency for Western Slavonia (LEDA).*
- xvii *For instance the programme of training on the EU ABC, programme of training for lecturers for county employees, aiming to inform them and involve them in various forms of cooperation with the EU.*

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